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Report Highlights: Increased market demand for NFDM in 2000 by Japanese end-users may result in an excess 12,000 MT over the import access volume. In contrast to NFDM, Japan will likely have a large surplus of butter stocks this year due to weak demand for domestic product. MAFF's new dairy subsidy program is scheduled to be implemented in JFY 2001. Japan's total cheese consumption is forecast to grow modestly in 2000. For edible whey, the current TRQ limits import expansion of this new ingredient to the market. The U.S. industry wishes to expand opportunities for this market, and post is supporting their efforts to find a technical solution permitting greater whey access.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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Executive Summary

During 2000, Japan's annual fluid milk production is forecast to fall only slightly from the previous year at 8.42 million MT. Weak drinking milk consumption, however, will likely increase the domestic supply of NFDM and butter, a by-product from the NFDM manufacturing process.

Despite the forecast increase in domestic NFDM production, increased market demand for NFDM by Japanese dairy and food ingredient users may cause a NFDM short supply in 2000. Industry sources estimated the gap to be as much as 12,000 MT on top of the current access NFDM volume to be imported from overseas during the year.

In contrast to the NFDM situation, Japan will likely have a large surplus of butter stocks this year due to weak market demand for domestic butter in 2000. The recent HS Committee ruling to put high fat cream cheese under the dairy spread category will eventually halt the flow of the above butter substitute, if the final ruling favors Japan and the GOJ implements the ruling. Australia, the major supplier of high fat cream cheese to Japan, is reportedly against the recent ruling by HS committee. The final ruling is unlikely be attained before fall this year. For the time being, Japan's butter surplus situation will persist.

In the ingredient market versatile applications and recognition by Japanese dairy and food ingredient users of WPC's speciality attributes for health foods and other health food substitutes continue to provide US dairy ingredient suppliers with excellent sales opportunities, if technically feasible avenues can be found within Japan's present dairy TRQ regime negotiated in the last UR. The U.S. Dairy Export Council (USDEC) is fully committed to expanding Japan's WPC market for U.S. products.

On the domestic policy front, GOJ/MAFF will implement the last dairy deficiency payment scheme in fiscal year 2000, subsidizing farmers for raw milk utilized for NFDM and butter production. The new dairy subsidy program, based on direct income payment by the government and emergency measures to protect farmers from unforeseen fluctuation of fluid milk prices, is schedule to be implemented in JFY 2001.

The positive outlook for the Japanese cheese market is unchanged. Japan's total cheese consumption is forecast to grow modestly in 2000. USDEC's successful media campaign to promote American natural white cream cheese has given a boost to U.S. cream cheese sales in Japan. Also, U.S. natural cheese is increasingly used for cheese flavored products by Japanese bakery and confection manufacturers. For Jan. - Mar. 2000, Japan's natural cheese imports from the U.S. rose 23 percent over the same period of the previous year, providing a solid outlook for 2000.

Fluid Milk Outlook

Japan's Fluid Milk Production Forecast to Improve, But Lethargic Drinking Milk Consumption Will Likely Put More Milk into Processing in 2000

The downward forecast for Japan's national fluid milk output for the year 2000, which generally corresponds to decreasing cow numbers in Japan, remain unchanged. However, the pace of the output decline is expected to ease a little bit this year. Reportedly improved fluid milk production for the first quarter of 2000, favored by ideal climate and productive cows put in milking, pushed the quarterly output, up 3 percent compared to the same period last year.

However, weak drinking milk consumption in Japan will likely put additional fluid milk supplies to be diverted to subsidized dairy products in 2000. In 1999, fluid milk utilized under the deficiency payment scheme was under-utilized by about 90,000 MT. According to industry sources, the nation's milk processing capacity has been fully utilized to produce NFDM and butter since the fourth quarter of last year. As mentioned in separate sections, this is good news for Japanese NFDM users as the increased NFDM is anticipated to ease the tight supply situation prevailing since the fourth quarter of last year to match with a seasonal consumption hike of dairy based desserts and confections. But on the other hand, this is undesirable for the GOJ because more domestic butter will be produced in the process of making NFDM, causing accumulation of butter stocks already in surplus.

Given the above situation, post projects Japan's annual fluid milk production in 2000 to be around 8.42 million MT, down only slightly from the previous year. Utilization in 2000 is forecast for drinking use at 4.9 million MT, down one percent and for processing utilization at 3.42 million MT, unchanged from the previous year.

Note: 1998 (Revised by MAFF) & 1999 PS&D figures for fluid milk, NFDM, butter and cheese were also adjusted as per MAFF's most recent production data in this report.

Dairy Policy Outlook

Despite Reduced GOJ Support Prices, Japanese Dairy Farmers Gained a Better Deal in Deficiency Payment Scheme Helped by Increased Environmental Care and Helper Subsidy

As reported earlier, GOJ/MAFF plans to implement the new dairy subsidy program beginning April 2001. JFY 2000 is, therefore, the last year for GOJ to implement the old dairy subsidy program.

In JFY 2000, the GOJ reduced subsidy levels for the deficiency payment scheme for raw milk utilized for production of specific dairy commodities for general use such as NFDM and butter. However, dairy farmers were assured of slightly better pay this fiscal year in net terms (for detailed mechanisms of GOJ's dairy subsidy program, see JA9103). This year, reductions in both the guaranteed price and the standard transaction price were more than offset by increased environmental care and helper subsidy payments. The calculated net increase was 0.20 yen more for a kilo of raw milk that they produced for the above scheme. The annual subsidy volume of raw milk for the above deficiency payment scheme is set at 2.4 million MT for JFY2000, the same level as the previous fiscal year, and GOJ's actual deficiency payment level is slightly reduced to 10.30 yen per kilo. The result will likely provide an incentive for Hokkaido dairy farmers, whose enrollment in the above scheme is the largest, to stay in the business for the time being.

MAFF plans to abolish the above deficiency payment scheme and replace it with a new direct subsidy program scheduled to be implemented beginning April 2001. The new bill is based on direct income compensation and emergency measures to protect farmers from unforeseen price fluctuations. Though MAFF devised the bill for a smooth transition to the new system, Japanese dairy farmers, backed by strong a political lobby, are reportedly taking a stance of not fully endorsing the bill without GOJ's assurances that they are not to be disadvantaged by the new subsidy program. [The new dairy subsidy program bill, which is under deliberation in the current diet session for the passage. Post plans to update JA9103 shortly for more details].

With a favorable settlement achieved for the deficiency payment program for processing use fluid milk for this fiscal year, dairy producer organizations are pressing hard to attain better deal for this fiscal year's drinking milk price negotiation with milk processors, who wants to cut the price by 2 - 5 yen per kilo because of cost, market competition and fairy weak drinking milk consumption. No resolution is come about to date.

Japanese Utilization of Fluid Milk
Period: January - December 1998 - 1999
Unit: 1,000 Kiloliters

	1998 Jan. - Dec.	1999 Jan. - Dec.	% Chg.
Regular Milk	3,987	3,890	-2%
Processed Milk	797	768	-4%
Milk Beverages	1,192	1,258	6%
Fermented Milk	643	721	12%

Period: January - March 1999 - 2000
Unit: 1,000 Kiloliters

	1999 Jan. - Mar.	2000 Jan. - Mar.	% Chg.
Regular Milk	915	902	-1%
Processed Milk	178	171	-4%
Milk Beverages	271	293	8%
Fermented Milk	171	169	-1%

Note: Regular Milk (White Milk), Processed Milk (Law Fat, Extra Cream Added, etc.), Milk Beverages (Flavored Milk etc.), Fermented Milk (Yogurt Products etc.)
Source: Monthly Statistics, Agriculture & Livestock Industries Corporation (ALIC)

Non Fat Dry Milk Outlook

Tight Non Fat Dry Milk Supply Forecast in 2000 Due to Improved Ingredient Demand for Confection and Desserts in Japan

Due to increased availability of raw milk for making NFDM and butter and improved market prospects for NFDM-based dairy products this year, post revised upward the previous projections in PS&D for NFDM production, import and human consumption figures.

The NFDM import forecast for 2000 is substantially raised to 67,000 MT (school lunch program, feed and general uses combined). Industry sources estimated early this year that Japan's annual NFDM supply to claim deficit of as much as 12,000 MT, which needs to be imported on top of the current access NFDM (16,500 MT scheduled for JFY 2000). Even including the recently increased domestic NFDM output, supplies are not considered sufficient to fulfill the industry's versatile ingredient demand for NFDM to be used for bakery, confection, ice-cream and other dairy based stacks and soft beverages. In the event that the GOJ decides to make additional NFDM purchases during JFY2000, Australia and New Zealand will be two major beneficiaries.

The NFDM market in 2000 is also showing signs of recovery since the fourth quarter of the last year due to the surge in ice cream consumption. Japanese consumers appear spending more income on ice cream, cakes and confection desserts, particularly during festive occasions such as Christmas and New Year. This year's spring menu promotions by HRI chains often include various types of new ice and dairy based deserts and soft drinks offered at reasonable prices. This trend may turn the sales prospects of dairy based desserts better this year. If the drinking milk consumption improves toward summer this year, favored by a good climate, NFDM may even become in short supply.

As featured in the last annual report, WPC is an emerging market for Japanese dairy ingredient users and manufacturers. As reported earlier, potential user demand for WPC is high and opportunities for U.S. suppliers are excellent. When first introduced, WPC was regarded as a just-in-case alternative to NFDM by Japan's dairy ingredient users. In recent years, attractive price and nutrition properties of WPC attracted clients in the dairy ingredient market but also function, health foods, and soft drink beverages market.

However, the current TRQ for edible whey, agreed to during the UR negotiation, limits import expansion for this new ingredient to the market. The scheduled TRQ volume for JFY 2000 remain 4,500 MT. Currently, Japan's industry demand for WPC is estimated to far exceed the TRQ level. Industry sources say the demand for WPC potentially 5 - 7 times more than the current TRQ level. The question is how to fulfill this demand and supply gap for WPC in the coming years. Since Japan's domestic production of WPC is negligible due to relatively limited cheese production in the country, the needed volume has to be imported.

USDEC is committed to expanding opportunities for this newly emerging market for US dairy industry, and post is supporting their efforts to find a technically feasible solution to bring the product in through consultations with GOJ/MAFF and the dairy industry in Japan.

Japanese Imports of NFDM by Use
Period: January - December 1998 - 1999

Unit: Metric Ton

	1998 Jan. - Dec..	1999 Jan. - Dec.	% Chg.
For School Lunch	3,942	3,771	-4%
For Feeds	34,425	32,231	-6%
For Others	18,716	20,464	9%
TOTAL	57,083	56,644	-1%

Period: January - March 1999 - 2000

Unit: Metric Ton

	1998 Jan. - Mar.	1999 Jan. - Mar.	% Chg.
For School Lunch	1,331	1,364	3%
For Feeds	10,028	10,417	4%
For Others	1,486	1,554	4%
TOTAL	12,845	13,335	4%

Note: Others include mostly the minimum access imports.

Source: Monthly Statistics, Agriculture & Livestock Industries Corporation

Butter Outlook

Japan's Butter Surplus Situation Remains Unresolved in 2000 Pending Implementation of HS Committee's Ruling on High Fat Cheese (Dairy Spread)

Japan's demand outlook for butter in 2000 is expected to remain weak, the same as 1999. Further, Japan's increased NFDM production this year is causing butter oversupply and rising stocks. Given the above, post revised previous PS&D projections for butter output and stock figure substantially upward for 2000.

During Jan. - Mar. 2000, Japan's butter production rose 17 percent over the same period of the previous year. The recent HS Committee ruling to put high fat cheese in a butter substitute called "dairy spread" category may help to alleviate the surplus condition of domestic butter this year. A estimated 13,000 MT of high fat cheese was imported under the fresh cheese category last year, mostly from Australia. If the ruling is fully implemented, flows of inexpensive butter substitute for use in confection and bakery industry in Japan would virtually be halted due to prohibitively high duties and secondary tariffs assigned for the dairy spread products. The Japanese industry may have to use relatively expensive domestic butter at the store for that reason.

Australia is reportedly opposing the ruling and in the process of filing an appeal to the committee this year. Until the final ruling is coming about and GOJ decides to implement the ruling, imports of high fat cheese continues and domestic butter surplus situation will likely remain unresolved. The next HS committee is scheduled thus fall.

Cheese Outlook

Successful USDEC Media Campaign for U.S. Natural White Cream Cheese to Boost U.S. Cheese Sales in the First Quarter 2000.

Since the last annual report post made no changes to the outlook for Japan's cheese market expansion scenario for 2000. During Jan. - Mar. 2000, Japan's natural cheese imports rose 9 percent at 44,775 MT. This year in particular, the weak Euro is leading to increased European natural cheese shipments to Japan. In the same period, Japan's import of U.S. natural cheeses rose 23 percent at 881 MT over the first quarter of 1999. Surges in fresh cheese category, up 34% at 487 MT and grated and powdered cheese category, up 44% to 369 MT, are main attributes for the rise.

USDEC's successful media campaigns for U.S. cream cheese (under fresh cheese), targeting breakfast demand, appears to have a direct link to the surge. Also, Japanese bakery and confection manufacturers are increasingly using powder cheeses as an ingredient to their new products of having cheese flavor, which also triggered the volume hike for U.S. powder cheese during the period.

As touched upon in the butter section, the HS committee's ruling on high fat cheese would negatively affect Australian cheese shipments to Japan in terms of volume and value if GOJ actually implement the committee's ruling. During Jan. - Mar., Japan's import of Australian fresh cheese was up 24% at 8,170 MT, which include the high fat cheese.

Japanese Fluid Milk PS&D Table

PSD Table						
Country	Japan					
Commodity	Dairy, Milk, Fluid				(1000 HEAD)(1000 MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Cows In Milk	1022	1022	1008	1008	1000	1000
Cows Milk Production	8566	8573	8440	8457	8350	8420
Other Milk Production	0	0	0	0	0	0
TOTAL Production	8566	8573	8440	8457	8350	8420
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	8566	8573	8440	8457	8350	8420
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Fluid Use Dom. Consum.	5042	5047	4940	4949	4900	4900
Factory Use Consum.	3422	3420	3400	3408	3350	3420
Feed Use Dom. Consum.	102	106	100	100	100	100
TOTAL Dom. Consumption	8566	8573	8440	8457	8350	8420
TOTAL DISTRIBUTION	8566	8573	8440	8457	8350	8420
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Japanese Non Fat Dry Milk PS&D Table

PSD Table						
Country	Japan					
Commodity	Dairy, Milk, Nonfat Dry				(1000 MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Beginning Stocks	47	47	43	43	35	34
Production	202	202	192	192	190	195
Intra EC Imports	0	0	0	0	0	0
Other Imports	57	57	50	57	50	67
TOTAL Imports	57	57	50	57	50	67
TOTAL SUPPLY	306	306	285	292	275	296
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Dom. Consumption	229	229	220	226	215	230
Other Use, Losses	34	34	30	32	30	30
Total Dom. Consumption	263	263	250	258	245	260
TOTAL Use	263	263	250	258	245	260
Ending Stocks	43	43	35	34	30	36
TOTAL DISTRIBUTION	306	306	285	292	275	296
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Japanese Butter PS&D Table

PSD Table						
Country	Japan					
Commodity	Dairy, Butter				(1000 MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Beginning Stocks	20	20	25	25	28	29
Production	89	89	83	86	80	88
Intra EC Imports	0	0	0	0	0	0
Other Imports	1	1	0	0	0	0
TOTAL Imports	1	1	0	0	0	0
TOTAL SUPPLY	110	110	108	111	108	117
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Domestic Consumption	85	85	80	82	80	82
TOTAL Use	85	85	80	82	80	82
Ending Stocks	25	25	28	29	28	35
TOTAL DISTRIBUTION	110	110	108	111	108	117
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Japanese Cheese PS&D Table

PSD Table						
Country	Japan					
Commodity	Dairy, Cheese				(1000 MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Beginning Stocks	15	15	15	15	15	15
Production	35	35	35	35	35	36
Intra EC Imports	0	0	0	0	0	0
Other Imports	183	184	185	187	190	190
TOTAL Imports	183	184	185	187	190	190
TOTAL SUPPLY	233	234	235	237	240	241
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Dom. Consumption	218	219	220	222	225	226
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	218	219	220	222	225	226
TOTAL Use	218	219	220	222	225	226
Ending Stocks	15	15	15	15	15	15
TOTAL DISTRIBUTION	233	234	235	237	240	241
Calendar Yr. Imp. from U.S.	4	0	4	0	4	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Japanese Cheese Trade Matrix

Import Trade Matrix			
Country	Japan		
Commodity	Dairy, Cheese		
Time period	Jan. - Dec.	Units:	Metric Ton
Imports for:	1998		1999
U.S.	4239	U.S.	4023
Others		Others	
Australia	70656	Australia	78447
New Zealand	53509	New Zealand	50655
France	5417	France	4918
Germany	7181	Germany	7821
Netherlands	7815	Netherlands	7586
Denmark	13121	Denmark	12436
Norway	9263	Norway	7844
Canada	3933	Canada	4743
Total for Others	170895		174450
Others not Listed	8315		8432
Grand Total	183449		186905